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UNITED STATES DISTRICT COURT

DISTRICT OF NEVADA

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SONOMA SPRINGS LIMITED
PARTNERSHIP, a Nevada limited
partnership, and SONOMA SPRINGS
ASSOCIATES, LLC, a Nevada limited
liability company,

Plaintiffs,

v.

FIDELITY AND DEPOSIT COMPANY OF
MARYLAND, a Maryland Corporation and
ZURICH AMERICAN INSURANCE
COMPANY OF ILLINOIS, a Maryland
Corporation and DOES 1-20, inclusive,

Defendants.

Case No. 3:18-cv-00021-LRH-CBC

ORDER

Defendants Fidelity and Deposit Company of Maryland (“Fidelity”) and Zurich
American Insurance Company of Illinois (“Zurich”) (collectively “Surety” or “defendants”)
move this court for summary judgment. ECF No. 60. Sonoma Springs Limited Partnership and
Sonoma Springs Associates, LLC (collectively “plaintiffs” or “Sonoma Springs”) opposed the
motion (ECF Nos. 69, 71) and defendants replied (ECF No. 73). The court now grants in part
and denies in part defendants’ motion.

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1 **I. BACKGROUND**

2 Sonoma Springs owns real property in Humboldt County, Nevada. ECF No. 2, Ex. A, ¶
3 10. In June 2015, Sonoma Springs contracted with Ascent Construction, Inc. (“Ascent”) to build
4 an apartment complex on the property. *Id.* at ¶ 11. Ascent, as the contractor, was required to
5 obtain a payment and a performance bond. *Id.* at ¶ 12. Ascent obtained two bonds. *Id.* at ¶ 13–16.

6 The parties executed the performance bond using the standard Document A312-2010
7 from the American Institute of Architects. ECF Nos. 61-1;¹ 71-5. Pursuant to the performance
8 bond terms, Fidelity is listed as the Surety, Ascent is the Contractor, and Sonoma Springs
9 Limited Partnership is the Owner. *Id.* Sections 3 through 6 of this bond are particularly relevant,
10 providing how the owner invokes the Surety’s obligation should the Contractor default, the
11 obligations of the Surety if the Contractor defaults, the Owner’s remedies, and the nature of
12 damages available for default. *Id.*

13 The parties also executed the payment bond using the same Document A312-2010 form
14 bond. ECF Nos. 61-2; 71-4. Pursuant to the payment bond terms, Fidelity is again listed as the
15 Surety, Ascent the Contractor, and Sonoma Springs as the Owner. *Id.* Sections 2 through 5 of
16 this bond are particularly relevant, providing when the Surety’s obligation is fulfilled, how the
17 owner invokes the Surety’s obligations should the Contractor default, and the Surety’s obligation
18 under the contract. *Id.*

19 The Surety bound itself, jointly and severely with the Contractor under the express terms
20 of the bonds, to Sonoma Springs to “pay for labor, materials and equipment furnished for use in
21 the performance of the Construction Contract,” and “for the performance of the Construction
22 Contract.” *See* ECF Nos. 71-4; 71-5. Sonoma Springs alleges that Ascent breached the terms of
23 the Construction Contract, triggering the Surety’s obligations under both the performance and
24 payment bonds. ECF No. 2, Ex. A ¶ 19. Contrarily, Ascent claims that Sonoma Springs breached
25 the contract and sued Sonoma Springs in the Sixth Judicial District Court of the State of Nevada

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¹ Defendants’ payment and performance bond cover sheets appear to have been inadvertently switched—
28 ECF No. 61-1 is the performance bond and ECF No. 61-2 is the payment bond. As these forms are based
 on the American Institute of Architects AIA form documents, the court is confident that this clerical labeling
 error does not affect its review of the evidence or its ruling herein.

1 for the County of Humboldt in May 2017. *See* ECF No. 30-1. In that action (“state court
2 action”), Ascent asserted six claims: breach of contract, foreclosure of mechanic’s lien,
3 declaratory judgment for priority of encumbrances, violation of the implied covenant of good
4 faith and fair dealing, unjust enrichment, and account stated. *Id.* Ascent also recorded a lien
5 against the property. ECF No. 47 at 4. The lien has since been reduced by order of the state court
6 (ECF No. 71-2) and substituted by a surety bond obtained from Hartford Fire Insurance
7 Company (ECF No. 47 at 6).

8 After the contractual dispute arose between Sonoma Springs and Ascent, Sonoma Springs
9 demanded multiple times that the Surety assume the contractual obligations they argue were
10 required by the bonds. ECF No. 2, Ex. A ¶¶ 20–27. The demands were unsuccessful. *Id.*
11 Thereafter, on December 18, 2017, Sonoma Springs filed suit against the Surety in the Sixth
12 Judicial District Court of the State of Nevada for the County of Humboldt. *Id.* On January 12,
13 2018, defendants removed the action to this Federal Court. ECF No. 1. This suit includes thirteen
14 claims, including breach of contract claims, tortious and contractual breach of the implied
15 covenant of good faith and fair dealing claims, breach of fiduciary duty and bad faith claims, a
16 claim for violation of Nevada’s Unfair Claims and Settlement Practices Act, and claims for
17 misrepresentation and unjust enrichment. ECF No. 2, Ex. A.

18 On March 5, 2018, the Surety moved to stay this action pending the outcome of the state
19 court action between Ascent and Sonoma Springs (ECF No. 30); however, after finding that the
20 *Colorado River* doctrine did not warrant a stay, the court denied the motion (ECF No. 53).
21 Defendants now move this court for summary judgment arguing that plaintiffs’ claims fail as a
22 matter of law. ECF No. 60.

23 **II. LEGAL STANDARD**

24 **Motion for Summary Judgment Pursuant to Civil Procedure Rule 56**

25 Summary judgment is appropriate only when the pleadings, depositions, answers to
26 interrogatories, affidavits or declarations, stipulations, admissions, and other materials in the
27 record show that “there is no genuine issue as to any material fact and the movant is entitled to
28 judgment as a matter of law.” FED. R. CIV. P. 56(a). In assessing a motion for summary judgment,

1 the evidence, together with all inferences that can reasonably be drawn therefrom, must be read in
2 the light most favorable to the party opposing the motion. *Matsushita Elec. Indus. Co. v. Zenith*
3 *Radio Corp.*, 475 U.S. 574, 587 (1986); *County of Tuolumne v. Sonora Cmty. Hosp.*, 236 F.3d
4 1148, 1154 (9th Cir. 2001).

5 The moving party bears the initial burden of informing the court of the basis for its
6 motion, along with evidence showing the absence of any genuine issue of material fact. *Celotex*
7 *Corp. v. Catrett*, 477 U.S. 317, 323 (1986). On those issues for which it bears the burden of
8 proof, the moving party must make a showing that is “sufficient for the court to hold that no
9 reasonable trier of fact could find other than for the moving party.” *Calderone v. United States*,
10 799 F.2d 254, 259 (6th Cir. 1986) (quotation and citation omitted); *see also Idema v.*
11 *Dreamworks, Inc.*, 162 F. Supp. 2d 1129, 1141 (C.D. Cal. 2001).

12 To successfully rebut a motion for summary judgment, the nonmoving party must point
13 to facts supported by the record which demonstrate a genuine issue of material fact. *Reese v.*
14 *Jefferson Sch. Dist. No. 14J*, 208 F.3d 736, 738 (9th Cir. 2000). A “material fact” is a fact “that
15 might affect the outcome of the suit under the governing law.” *Anderson v. Liberty Lobby, Inc.*,
16 477 U.S. 242, 248 (1986). Where reasonable minds could differ on the material facts at issue,
17 summary judgment is not appropriate. *See v. Durang*, 711 F.2d 141, 143 (9th Cir. 1983). A
18 dispute regarding a material fact is considered genuine “if the evidence is such that a reasonable
19 jury could return a verdict for the nonmoving party.” *Liberty Lobby*, 477 U.S. at 248. “The mere
20 existence of a scintilla of evidence in support of the [party’s] position [is] insufficient” to
21 establish a genuine dispute; there must be evidence on which a jury could reasonably find for the
22 party. *See id.* at 252.

23 Surety bonds are contracts; as such the court interprets them pursuant to Nevada contract
24 law. *United States for the Use and Benefit of Agate Steel, Inc., v. Jaynes Corporation*, Case No.
25 2:13-cv-01907-APG-NJK, 2016 WL 8732302, at *2 (D. Nev. June 17, 2016). In contract
26 disputes, interpretation of the contract is a question of law with the objective of giving effect to
27 the intent of the parties. *Am. First Fed. Credit Union v. Soro*, 359 P.3d 105, 106 (Nev. 2015). If
28 the language of the contract is “clear and unambiguous,” the contract should be given its plain

1 meaning and enforced as written. *Id.*; see *Intermec, Inc. v. IBM*, No. 11-165-BJR, 2014 WL
2 6472854, at *4 (W.D. Wash. Nov. 18, 2014) (quoting *Mellon Bank, N.A. v. United Bank Corp. of*
3 *New York*, 31 F.3d 113, 115 (2d Cir. 1994) (summary judgment is appropriate “if the language of
4 the contract is ‘wholly unambiguous.’”)). “A contract is ambiguous when it is subject to more
5 than one reasonable interpretation.” *Anvui, LLC v. G.L. Dragon, LLC*, 163 P.3d 405, 407 (Nev.
6 2007). However, a contract is not deemed ambiguous simply because the parties disagree on how
7 to interpret it. *Galardi v. Naples Polaris, LLC*, 301 P.3d 364, 366 (Nev. 2013); *United States v.*
8 *King Features Entm’t, Inc.*, 843 F.2d 394, 398 (9th Cir. 1988) (“Summary judgment is
9 appropriate when the contract terms are clear and unambiguous, even if the parties disagree as to
10 their meaning.”).

11 **III. DISCUSSION**

12 **A. Removal was proper and the court has subject matter jurisdiction over this action.**

13 Civil actions brought in state court may be removed to the United States District Court of
14 the district or division that embraces the state court if the district court has original jurisdiction.
15 28 U.S.C. § 1441(a). This court has "original jurisdiction"—there is complete diversity between
16 the parties² and the amount in controversy exceeds \$75,000.00.³ See 28 U.S.C. § 1332.

17 Removal was likewise timely: defendants were originally served with the summons and
18 complaint on December 19, 2017, via the Nevada Department of Business and Industry, Division
19 of Insurance, and later served on CSC on December 26, 2017. ECF Nos. 1; 2, Ex. B. Defendants
20 filed a notice of removal on January 12, 2018, and on January 16, 2018, filed the required civil
21 cover sheet and paid the filing fee. ECF Nos. 1, 11, 12. As removal was complete within 30 days

23 ² Plaintiffs are citizens of Nevada and Idaho. The named defendants are citizens of Maryland and Illinois.
24 The citizenship of the fictitious “Doe” defendants named in the complaint are not considered for purposes
25 of assessing proper removal based on diversity jurisdiction. 28 U.S.C. § 1441(b)(1); see also *Bryant v. Ford*
Motor Co., 886 F.2d 1526, 1528 (9th Cir. 1989) *cert. denied*, 493 U.S. 1076 (1990).

26 ³ Pursuant to Nevada Rule of Civil Procedure 8, the complaint filed in state court only requested damages
27 “in excess of \$15,000.” However, it is “facially apparent” from the complaint that the jurisdictional amount
28 in controversy requirement is met. *Singer v. State Farm Mut. Auto. Ins. Co.*, 116 F.3d 373, 377 (9th Cir.
1997). First, plaintiffs’ demand letter to defendants of July 5, 2017, detailed an amount in controversy of
\$260,000. ECF No. 61-5. Second, this cause of action largely centers around whether defendants were
required to bond off Ascent’s lien of \$231,850.86 against the property. ECF Nos. 2, Ex A; 71-2.

1 of either December 19 or 26, 2017, defendant's notice of removal was timely under 28 U.S.C.
2 § 1446(b).

3 **B. Plaintiffs' second cause of action for breach of the performance bond fails because**
4 **the conditions precedent to trigger the Surety's obligation were not satisfied.**

5 A performance bond creates a unique three-party relationship where the surety guarantees
6 that in the event the principal (here, Ascent) defaults on its obligations in the underlying
7 construction contract, the surety will step in and perform. *See* 17 Am. Jur. 2d *Contractors' Bonds*
8 § 1 (2019). Performance bonds are not insurance and do not indemnify the contractor, but rather,
9 the bonds simply protect the owner. *Id.* Performance bonds specify conditions precedent that the
10 owner must complete prior to invoking the surety's obligations under the bond. *See* 1
11 Christopher R. Ward, Brett D. Divers, Matthew M. Horowitz, and Kevin L. Lybeck, *New*
12 *Appleman on Insurance Law Library Edition* § 139.01 (2019) ("*New Appleman*"). Traditionally,
13 courts have found that an owner's failure to comply with these conditions is fatal to an owner's
14 claim. *See e.g., Jaynes*, 2016 WL 8732302, at *7-8; *Stonington Water St. Assoc., LLC v. Hodess*
15 *Bldg. Co.*, 792 F. Supp.2d 253, 262-63 (D. Conn. 2011) ("[C]ompliance with the conditions
16 precedent is necessary in order to invoke the surety's obligation under the performance bond and
17 failure to do [so] is fatal to the obligee's claim for coverage."); *CC-Aventura, Inc. v. Weitz Co.,*
18 *LLC*, 492 Fed.Appx. 54, 56-57 (11th Cir. 2012) (the obligee was required to "first give notice to
19 the surety before [it] undertook to remedy the default itself," and therefore, the surety was not
20 liable on the bond); *L & A Contracting Co. v. S. Concrete Servs.*, 17 F.3d 106, 111 (5th Cir
21 1994)) ("A declaration of default sufficient to invoke the surety's obligations under the bond
22 must be made in clear, direct, and unequivocal language. The declaration must inform the surety
23 that the principal has committed a material breach or series of material breaches of the
24 subcontract, that the obligee regards the subcontract as terminated, and that the surety must
25 immediately commence performing under the terms of the its bond."); *Hunt Constr. Grp., Inc. v.*
26 *Nat'l Wrecking Corp.*, 542 F. Supp.2d 87, 95 (D.D.C. 2008) ("When an obligee fails to provide
27 timely notice to a surety so it can exercise its options . . . , the obligee has breached the contract
28 and the surety is without liability.").

1 Here, the parties' performance bond, which conforms with the American Institute of
2 Architects AIA Document 312-2010,⁴ provides the following conditions precedent:

3 § 3 If there is no Owner Default under the Construction Contract, the Surety's
4 obligation under this Bond shall arise after

5 .1 the Owner first provides notice to the Contractor and the Surety that the
6 Owner is considering declaring a Contractor Default. Such notice shall
7 indicate whether the Owner is requesting a conference among the Owner,
8 Contractor and Surety to discuss the Contractor's performance. If the
9 Owner does not request a conference, the Surety may, within five (5)
10 business days after receipt of the Owner's notice, request such a conference.
11 If the Surety timely requests a conference, the Owner shall attend. Unless
12 the Owner agrees otherwise, any conference requested under this Section
13 3.1 shall be held within ten (10) business days of the Surety's receipt of the
14 Owner's notice. If the Owner, the Contractor and the Surety agree, the
15 Contractor shall be allowed a reasonable time to perform the Construction
16 Contract, but such an agreement shall not waive the Owner's right, if any,
17 subsequently to declare a Contractor Default;

18 .2 the Owner declares a Contractor Default, terminates the Construction
19 Contract and notifies the Surety;
20 and

21 .3 the Owner has agreed to pay the Balance of the Contract Price in
22 accordance with the terms of the Construction Contract to the Surety or to
23 a contractor selected to perform the Construction Contract.

24 § 4 Failure on the part of the Owner to comply with the notice requirement in
25 Section 3.1 shall not constitute a failure to comply with a condition precedent to
26 the Surety's obligations, or release the Surety from its obligations, except to the
27 extent the Surety demonstrates actual prejudice.

28 ECF No. 71-5.

29 The parties dispute, and the issue is currently being litigated in state court, whether the
30 first condition is met—was the Owner in default under the terms of the construction contract.
31 Under the performance bond, owner default is defined as “[f]ailure of the Owner, which has not
32 been remedied or waived, to pay the Contractor as required under the Construction Contract or to
33 perform and complete or comply with the other material terms of the Construction Contract.” *Id.*
34 §14.4. From the plain language of the bond, if the owner was in default, the Surety was under no
35 obligation to perform on the bond.

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⁴ This form bond was initially crafted in 1984 and the majority of the case law surrounds this version. The 2010 version, at issue here, differs some from the 1984 version, including not requiring a conference be held and that failure to provide notice does not automatically extinguish the owner's claim against the surety. *See New Appleman*, § 139.02(3)(c).

1 However, additional conditions precedent must also have been satisfied by the plaintiffs
2 to trigger the Surety's obligation under the bond. First, Sonoma Springs was to provide notice to
3 Ascent and the Surety that it was considering declaring Contractor Default. Plaintiffs also were
4 required to declare Contractor Default, terminate the Construction Contract,⁵ and notify the
5 Surety. And finally, the Owner was required to agree to pay the Balance of the Contract Price to
6 the Surety. By the bond's plain language, the parties agreed that a failure to comply with § 3.1
7 does not automatically release the Surety from its obligation unless the Surety can show actual
8 prejudice. *Id.* § 4. However, § 4 specifically excludes §3.2 or §3.3 from this provision; therefore,
9 a failure to comply with one of these sections "is a material breach that renders the bond null and
10 void." *Jaynes*, 2016 WL 8732302, at *7.

11 The record shows that plaintiffs declared Ascent in default and gave notice to the Surety
12 of this fact. In an email from plaintiffs' counsel to defendants' counsel on June 6, 2017,
13 plaintiffs' counsel stated, "As delineated in our telephone conversation, past conversations, and
14 written documentation, the Contractor is in default," and demanded the Surety step in to carry
15 out the terms of the Construction Contract. ECF No. 61-3. In further correspondence on the issue
16 from June 9, 2017, plaintiffs' counsel stated that it had previously "tendered to the Surety the
17 claims and Owner's position/defenses addressing Ascent's performance, lack of performance,
18 delayed performance." ECF No. 61-5, Ex. 1. Plaintiffs articulated that by recording its lien
19 against the property, Ascent was in breach of the Construction Contract. *Id.* This letter does
20 specifically reference "default," but the court would note that plaintiffs use the term

21
22 ⁵ Under the terms of the Construction Contract, the Contract "may be terminated by the Owner or the
23 Contractor as provided in Article 14 of AIA Document A201-2007." ECF No. 75-1 at 6. Section 14.2.1
24 provides:

25 The Owner may terminate the Contract if the Contractor

- 26 .1 repeatedly refuses or fails to supply enough properly skilled workers or
27 proper materials;
- 28 .2 fails to make payment to Subcontractors for materials or labor in
accordance with the respective agreements between the Contractor and the
Subcontractors;
- .3 repeatedly disregards applicable laws, statutes, ordinances, codes rules
and regulations, or lawful orders of a public authority; or
- .4 otherwise is guilty of a substantial breach of a provision of the Contract
Documents.

Id. at 73.

1 interchangeably with breach.⁶ The record also shows that plaintiffs agreed to pay the balance of
2 the construction price to the Surety: “Please remember, the Owner will tender payment
3 immediately for the unpaid balance within the Construction Contract terms, once Ascent
4 complies with the Contract terms.” *Id.*

5 While this correspondence may meet §3.3 and a portion of the §3.2 condition of the
6 performance bond—specifically, declaration of a Contractor Default—the record is devoid of
7 any indication that plaintiffs terminated the construction contract as required under the bond.
8 This is fatal to plaintiffs’ claim. *See Jaynes*, 2016 WL 8732302, at *8 (“Janyes failed to comply
9 with the condition precedent in section 3.2 of the performance bond and its failure to do so is a
10 material breach that excuses Ohio Casualty’s performance.”); *Stonington*, 792 F. Supp.2d at 267
11 (The obligee’s “failure to terminate [the Contractor] when reason to do so arose and then to
12 properly comply with the notice procedures set forth . . . is a material breach of the bond and
13 underlying contract.”). Plaintiffs failed to satisfy the §3.2 condition precedent, and that failure
14 was a material breach of the performance bond that excuses the Surety’s obligation.
15 Accordingly, the court grants summary judgment as to plaintiffs’ second cause of action.

16 **C. The court grants defendants’ motion for summary judgment on plaintiffs’ fourth,**
17 **fifth, eighth, ninth, and tenth causes of action for tortious breach of the implied**
18 **covenant of good faith and fair dealing, breach of fiduciary duty, bad faith, and**
violation of NRS § 686A.310.

19 In 1975, the Nevada Supreme Court first approved and adopted a cause of action in tort
20 for breach of an implied covenant of good faith and fair dealing. *U.S. Fidelity & Guaranty Co.*
21 *v. Peterson*, 540 P.2d 1070, 1071 (Nev. 1975). The *Peterson* Court held that “where an insurer
22 fails to deal fairly and in good faith with its insured by refusing without proper cause to
23 compensate its insured for a loss covered by the policy such conduct may give rise to a cause of
24 action in tort for breach of an implied covenant of good faith and fair dealing.” *Id.* Subsequently,

25 ⁶ The court notes that, “[n]ot every breach of a construction contract, not even every material breach,
26 constitutes a default under the contract as to justify termination and the involvement of a surety, if there is
27 one. A default which would involve the surety is believed to require a material breach or series of breaches
28 which are sufficient to justify termination of the contract by the owner/obligee.” *L & A Contracting Co.*,
17 F.3d at 110 n. 11 (quoting James A. Knox, *Representing the Private Owner*, in *Construction Defaults:*
Rights, Duties, and Liabilities § 9.3, at 201 (Robert F. Cushman & Charles A. Meeker eds., 1989)).

1 the Nevada Supreme Court has limited application of tort liability under the covenant. *See e.g.,*
2 *Aluevich v. Harrah's*, 660 P.2d 986, 986 (Nev. 1983) (declining to extend the tort claim to
3 “commercial leases between two sophisticated parties who are not otherwise bound by a special
4 element of reliance or fiduciary duties.”).

5 The Nevada Supreme Court has explicitly declined to extend liability to a surety for the
6 tortious breach of the covenant. *See Great American Ins. Co. v. General Builders, Inc.*, 934 P.2d
7 257, 263 (Nev. 1997) (After the surety’s revocation of the contractor’s bonds, the project owner
8 declined to award the contract to the contractor. On these facts, the court determined that “this
9 case [does] not raise the same public policy concerns implicated where an insurance company
10 refuses to compensate a policyholder for losses covered by the policy;” therefore, punitive
11 damages were not appropriate.); *Insurance Co. of West v. Gibson Tile Co., Inc.*, 134 P.3d 698,
12 702 (Nev. 2006) (The general contractor required its subcontractor take out a bond on the
13 project. Because the subcontractor “transacted most of its business with [the surety] through a
14 bond agent,” and the parties had equal bargaining power, the Court held that, as a matter of law,
15 the subcontractor and the surety had no special relationship that would allow a tortious breach of
16 the covenant of good faith and fair dealing claim.). While the Nevada Supreme Court’s rulings
17 have been confined to cases by a principal against a surety, this District has held that the Court’s
18 rulings extend broadly to all tortious bad faith claims against sureties. *See e.g., Clark County*
19 *Sch. Dist. v. Travelers Cas. And Sur. Co. of Am.*, Case No. 2:13-cv-01100-JCM-PAL, 2015 WL
20 139399, at *3-4 (D. Nev. Jan. 12, 2015), *denied reconsideration and denied certifying question*
21 *to the Nevada Supreme Court*, 2015 WL 1578163, at *3-6 (April 8, 2015) (“*Travelers II*”)
22 (declining to confine *Gibson Tile* and *General Builders* to plaintiffs reasoning because “reading
23 these cases to bar all tortious bad faith claims against sureties conforms with the Nevada
24 Supreme Court’s broad language and reasoning presented” in these cases.).

25 The court agrees and finds that under Nevada law, plaintiffs’ claims for tortious breach
26 of the implied covenant of good faith and fair dealing fail because, as a matter of law, these
27 claims are not maintainable against a surety. *See Gibson Tile*, 134 P.3d at 702 (“A surety cannot
28 be liable for the tortious breach of the covenant of good faith and fair dealing.”); *General*

1 *Builders*, 934 P.2d at 263 (finding no special relationship between the contractor and the surety
2 that would support a claim for tortious breach of the covenant). The Nevada Supreme Court’s
3 broad language in *Gibson Tile* must be read as prohibiting tort liability for bad faith against the
4 surety by both the principal and the obligee. *Gibson Tile*, 134 P.3d at 702. Had the Court wished
5 to limit its ruling to claims by a principal against a surety it would have done so. *See Travelers*
6 *II*, 2015 WL 1578163, at *4.

7 Further, there is a similar factual basis here as in *Gibson Tile* and *General Builders* that
8 supports finding plaintiffs’ claims for tortious breach are inapplicable—the owner-surety
9 relationship simply does not raise the same public policy concerns implicated in *Fidelity*. *See*
10 *General Builders*, 934 P.2d at 263. Here, unlike most insurance contracts, the parties are both
11 sophisticated—one an owner of a multi-million-dollar project and the other a national surety. *See*
12 *Aluevich*, 660 P.2d at 987. Moreover, one party did not hold “vastly superior bargaining
13 power”—the parties used a form performance bond and payment bond used routinely by parties
14 in these relationships. *See id*; *General Builders*, 934 P.2d at 263 (“[T]he parties, both
15 experienced commercial entities . . . were never in inherently unequal bargaining positions.”);
16 *Travelers II*, 2015 WL 1578163, at *4-5 (“[U]nlike in cases of insurance, surety bonds are by no
17 means ‘adhesion contracts.’ . . . Indeed, the obligee may have an even weaker argument than the
18 principal to sue a surety for tortious bad faith, as the obligee was not even a contracting party to
19 the bonds obtained by the principal.”). Accordingly, plaintiffs’ fourth and fifth claims fail as a
20 matter of law.

21 Additionally, “because a surety’s role in providing bonds on behalf of a principal is
22 distinct from that of an insurance company providing a policy to protect its insured, a surety is
23 not held to owe the same fiduciary duty . . .” *Gibson Tile*, 134 P.3d at 703 (finding the lower
24 court erred in instructing the jury that the surety owed a fiduciary duty to the principal). “[A]
25 surety simply lends its credit and agrees to step in where the principal defaults on its contract.
26 This is not a fiduciary relationship, and therefore does not present the same concerns as the
27 insured-insurer relationship.” *Travelers II*, 2015 WL 1578163 at *5. Accordingly, plaintiffs’
28 eighth cause of action for breach of fiduciary duty must also fail.

1 Similarly, NRS § 686A.310, *Unfair practices in settling claims; liability of insurer for*
2 *damages*, is a statute pertaining directly to insurers, not sureties. This statute, part of what is
3 commonly referred to as the Unfair Insurance Practices Act (NRS § 686A.010 *et seq.*), was
4 enacted for the benefit of insured persons against insurers. *See Crystal Bay Gen. Imp. Dist. v.*
5 *Aetna Cas. & Sur. Co.*, 713 F. Supp. 1371, 1376 (D. Nev. 1989), *rev'd in part on other grounds*,
6 No. 90-16417, 959 F.2d 239, 1992 WL 68269 (9th Cir. April 7, 1992) (unpublished). The
7 legislative history, provides that the sponsor of A.B. 811, which amended the statute in 1987,
8 stated that the statute “would benefit the people of Nevada by *codifying existing law* that was
9 recognized as common law in the sense of the right of a person to sue his insurance company for
10 an act of bad faith.” *Crystal Bay*, 713 F. Supp. at 1376 (quoting Minutes of Nevada State
11 Legislature Assembly Committee on Commerce, May 25, 1987) (emphasis in original). While
12 this District subsequently held that it was not the intent of the Nevada Legislature to codify the
13 common law tort of bad faith, the two do overlap. *See Hart v. Prudential Prop. & Casualty Ins.*
14 *Co.*, 848 F. Supp. 900, 904-05 (D. Nev. 1994).

15 Specifically, the statute applies more narrowly than the common law tort: the statute is
16 limited to proscribing “specific actions taken by an *insurer*,” while the Nevada Supreme Court
17 has allowed tortious bad faith claims to proceed in actions dealing with partnerships, insurance,
18 and franchise agreements. *See id.* at 904 (emphasis added); *Aluevich*, 660 P.2d at 987. As the
19 court has articulated above, the surety-owner relationship is distinguishable from that of the
20 insurer-insured relationship, and the court will not simply apply insurance law in the surety
21 context. Consequently, defendants cannot not be held to have violated a statute intended to
22 benefit the insured when plaintiffs are an owner in a surety relationship. For the same reasons,
23 plaintiffs’ claim for bad faith must also fail. *See Ming Chu Wun v. North Am. Co. for Life and*
24 *Health Ins.*, Case No. 3-11-cv-00760-KJD-CWH, 2012 WL 893750, at *4 (D. Nev. March 15,
25 2012) (“Nevada’s definition of bad faith is (1) *insurer’s* denial of (or refusal to pay) an *insured’s*
26 claim (2) without any reasonable basis and (3) the *insurer’s* knowledge or awareness of the lack
27 of any reasonable basis to deny coverage, or the *insurer’s* reckless disregard as to the
28

1 unreasonableness of the denial.” (emphasis added)). Accordingly, plaintiffs’ ninth and tenth
2 causes of action for both faith and violation of NRS § 686A.310 must fail as a matter of law.

3 Therefore, for all of the above reasons, the court grants defendants’ motion for summary
4 judgment as to plaintiffs’ fourth, fifth, eighth, ninth, and tenth causes of action.

5 **D. The court grants defendants’ motion for summary judgment on plaintiffs’ seventh**
6 **cause of action for breach of the implied covenant of good faith and fair dealing**
7 **under contract law.**

8 Distinct from the tort discussed above, all contracts, including commercial contracts,
9 “impose upon the parties an implied covenant of good faith and fair dealing, which prohibits
10 arbitrary or unfair acts by one party that work to the disadvantage of the other.” *Nelson v. Heer*,
11 163 P.3d 420, 427 (Nev. 2007); *Ainsworth v. Combined Insurance Company of Am.*, 763 P.2d
12 673, 676 n.1 (1988), *cert. denied* 493 U.S. 958 (1989) (the covenant is “implied into every
13 commercial contract.”). Under Nevada law, even if there is no breach of contract, a plaintiff
14 “may still be able to recover damages for breach of the implied covenant of good faith and fair
15 dealing,” under a contract law theory when “the terms of a contract are literally complied with
16 but one party to the contract deliberately countervenes the intention and spirit of the
17 contract . . .” *Hilton Hotels Corp. v. Butch Lewis Productions, Inc.*, 808 P.2d 919, 922 (Nev.
18 1991); *contra Nelson*, 163 P.3d at 427 (“Since Nelson bore no contractual duty to disclose the
19 water damage, Nelson’s omission did not constitute an arbitrary or unfair act that worked to
20 Heer’s disadvantage;” therefore, his claim for breach of implied covenant of good faith and fair
21 dealing was insufficient as a matter of law.).

22 As discussed above, the defendants did not breach the performance bond. Therefore, the
23 court must determine whether, although the defendants complied with the literal terms of the
24 contract, they deliberately or intentionally hindered the performance of the contract. The record
25 is devoid of any such evidence. Unlike in *Hilton*, where evidence in the record supported
26 plaintiff’s allegation that the defendants intentionally and purposefully undermined the contract
27 “in a manner that [was] unfaithful to the purpose of the contract,” and a trial was required, the
28 facts here do not suggest a similar result. 808 P.2d at 922-23. Rather, as discussed above, it was
plaintiffs that were in material breach of the performance bond by failing to adequately complete

1 its obligations under § 3.2. Accordingly, the court grants defendants’ motion for summary
2 judgment on plaintiffs’ seventh cause of action.

3 **E. Defendants’ first cause of action, breach of payment bond, is granted in part and**
4 **denied in part. Accordingly, the corresponding claims for contractual breach of**
5 **implied covenant of good faith and fair dealing, plaintiffs’ sixth cause of action, and**
6 **breach of the Construction Contract, plaintiffs’ third cause of action are granted in**
7 **part and denied in part.**

8 “A ‘payment bond’ is an undertaking whereby a surety guarantees to the obligee that all
9 bills for labor and materials contracted for and actually used by a contractor will be paid if the
10 contractor defaults.” 17 Am. Jur. 2d *Contractors’ Bonds* § 1 (2019). Unlike the performance
11 bond obligations, discussed above, “payment bonds are intended to ensure that *laborers* and
12 *material suppliers* will be paid in the event of a default.” *Id.* (emphasis added).

13 The payment bond provides in relevant part:

14 § 2 If the Contractor promptly makes payment of all sums due to Claimants, and
15 defends, indemnifies and holds harmless the Owner from claims, demands, liens or
16 suits by any person or entity seeking payment for labor, materials or equipment
17 furnished for use in the performance of the Construction Contract, then the Surety
18 and the Contractor shall have no obligation under this Bond.

19 § 3 If there is no Owner Default under the Construction Contract, the Surety’s
20 obligation to the Owner under this Bond shall arise after the Owner has promptly
21 notified the Contractor and the Surety (at the address described in Section 13) of
22 claims, demands, liens or suits against the Owner or the Owner’s property by any
23 person or entity seeking payment for labor, materials or equipment furnished for
24 use in the performance of the Construction Contract and tendered defense of such
25 claims, demands, liens or suits to the Contractor and the Surety.

26 § 4 When the Owner has satisfied the conditions in Section 3, the Surety shall
27 promptly and at the Surety’s expense defend, indemnify and hold harmless the
28 Owner against a duly tendered claim, demand, lien or suit.

...

§ 5.1 Claimants, who do not have a direct contract with the Contractor,

...

§ 5.2 Claimants, who are employed by or have a direct contract with the Contractor,
have sent a Claim to the Surety (at the address described in Section 13).

...

1 **§ 16.2** Claimant. An individual or entity having a direct contract with the Contractor
2 or with a subcontractor of the Contractor to Furnish labor, materials or equipment
3 for use in the performance of the Construction Contract. The term Claimant also
4 includes any individual or entity that has rightfully asserted a claim under an
5 applicable mechanic's lien or similar statute against the real property upon which
6 the Project is located. The intent of the Bond shall be to include without limitation
7 in the terms "labor, materials or equipment" that part of water, gas, power, light,
8 heat, oil, gasoline, telephone service or rental equipment used in the Construction
9 Contract, architectural and engineering services required for performance of the
10 work of the Contractor and the Contractor's subcontractors, and all other items for
11 which a mechanic's lien may be asserted in the jurisdiction where the labor,
12 materials or equipment were furnished.

13 ECF No. 71-4.

14 Plaintiffs' complaint raises several issues regarding breach of this payment bond by the
15 Surety. *See* ECF No. 2, Ex. A. Plaintiffs argue that defendants are required to step in and defend
16 Sonoma Springs against Ascent's mechanics lien. *Id.* ¶ 19(a). Plaintiffs also argue that
17 defendants were required under the bond to pay off liens filed by JM Mechanical and Exclusive
18 Landscape, but due to defendants' failure, plaintiffs were forced to pay these liens off
19 themselves, a total of \$27,218.78. *Id.* ¶ 34. The record also includes a Notice of Lien for
20 \$131,808.36 due to Donald Woo Construction brought by Progressive Services Corporation.
21 ECF No. 2, Ex. A(8) & (9). The record provides that Ascent requested the lien be released and
22 executed a Release of Lien Bond for \$197,712.54 on August 15, 2016. *Id.* Correspondence
23 between the parties indicates that Weigle Concrete also filed a lien against the property, but the
24 Surety articulated, and plaintiffs have not refuted, that this lien has since been released. *Id.*, Ex.
25 A(8).

26 First, the court disagrees with plaintiffs that the plain terms of the payment bond force
27 defendants to step in and pay off a mechanics lien filed by the bond's principal, here Ascent,
28 against the owner. Neither party cites to any case law and the court is likewise unaware of any
29 that would support this reading of a payment bond. Neither can plaintiffs cite to any evidence
30 that the parties intended the word "claimant" to include Ascent. *See Reno Club v. Young Inv.*
31 *Co.*, 182 P.2d 1011, 1016 (Nev. 1947) ("In the absence of clear evidence of a different intention,
32 words must be presumed to have been used in their ordinary sense, and given the meaning
33 usually and ordinarily attributed to them.").

1 Further, a plain reading of the payment bond indicates that a “claimant,” as defined in the
2 bond, cannot be the principal. For example, reading § 5.2 of the payment bond as plaintiffs
3 suggest would create the following: “[Contractor], who are employed by or have a direct contract
4 with the Contractor, have sent a Claim to the Surety.” Such a reading would lead to an absurd
5 result of not only § 5.2, but also sections 2, 5.1, and 16.2. *See Young*, 182 P.2d at 1017 (“A
6 contract should not be construed so as to lead to an absurd result,” and “[a] contract should be
7 given a reasonable and fair interpretation.” (citations omitted)); *Royal Indem. Co., Inc. v. Special*
8 *Serv. Supply Co.*, 413 P.2d 500, 502 (Nev. 1966) (“If we accept appellant’s argument that
9 materialmen’s defaulted bills were not included in the bond, there appears no purpose for Royal
10 expressly denying liability for prior materials . . .”).

11 Second, plaintiffs contend that they were forced to pay two subcontractors, JM
12 Mechanical and Exclusive Landscape, after they filed liens against the property and the
13 defendant failed to indemnify and hold plaintiffs harmless. Under the payment bond, if the
14 Owner is not in default, the Surety’s obligations arise when the Owner promptly notifies the
15 Contractor and the Surety of the claim or lien against the property, and any defense to such claim
16 or lien. ECF No. 71-4 § 3. As discussed above, it is a materially disputed fact whether the Owner
17 was in default. Additionally, correspondence from the Surety’s counsel to plaintiffs’ counsel
18 indicates that the Surety determined that the filing of liens against the project was not a default
19 under the Construction Contract. ECF No. 2, Ex. A(8). Rather, it was the Surety’s position that
20 §§ 2.1.2, 15.2.8, and 9.10.2 of the Construction Contract *permit* the Surety to “bond off” the liens
21 but do not *require* it to. *Id.* (emphasis added). The Surety then stated it was unable to take further
22 action because it appeared to them that there was a legitimate dispute. *Id.*

23 The relevant provisions of the Construction Contract provide:

24 **§ 2.1.2** The Owner shall furnish to the Contractor within fifteen days after receipt
25 of a written request, information necessary and relevant for the Contractor to
26 evaluate, given notice of or enforce mechanic’s lien rights. Such information shall
include a correct statement of the record legal title to the property on which the
Project is located, usually referred to as the site, and the Owner’s Interest therein.

27 . . .
28

1 **§ 9.10.2** Neither final payment nor any remaining retained percentage shall become
2 due until the Contractor submits to the Architect (1) an affidavit that payrolls, bills
3 for materials and equipment, and other indebtedness connected with the Work for
4 which the Owner or the Owner's property might be responsible or encumbered (less
5 amounts withheld by Owner) have been paid or otherwise satisfied, (2) a certificate
6 evidencing that insurance required by the Contract Documents to remain in force
7 after final payment is currently in effect and will not be canceled or allowed to
8 expire until at least 30 days' prior written notice has been given to the Owner, (3)
9 a written statement that the Contractor knows of no substantial reason that the
10 insurance will not be renewable to cover the period required by the Contract
11 Documents, (4) consent of surety, if any, to final payment, and (5), if required by
12 the Owner, other data establishing payment or satisfaction of obligations, such as
13 receipts, releases and waivers of liens, claims, security interests or encumbrances
14 arising out of the Contract, to the extent and in such form as may be designated by
15 the Owner. If a Subcontractor refuses to furnish a release or waiver required by the
16 Owner, the Contractor may furnish a bond satisfactory to the Owner to indemnify
17 the Owner against such lien. If such lien remains unsatisfied after payments are
18 made, the Contractor shall refund to the Owner all money that the Owner may be
19 compelled to pay in discharging such lien, including all costs and reasonable
20 attorneys' fees.

21 ...

22 **§ 15.2.8** If a Claim relates to or is the subject of a mechanic's lien, the party
23 asserting such Claims may proceed in accordance with applicable law to comply
24 with the lien notice of filing deadlines.

25 ECF No. 75-1.

26 On plain reading of both the Construction Contract and the payment bond, the court
27 agrees with plaintiffs that there is a legitimate material dispute as to whether the Surety was
28 required to "bond off" the liens filed by the above noted subcontractors. The contract provides
29 that "the Contractor *may* furnish a bond satisfactory to the Owner to indemnify the Owner
30 against such lien." *Id.* § 9.10.2 (emphasis added). However, under the payment bond, when the
31 Owner is in full compliance, "the Surety *shall* promptly and at the Surety's expense defend,
32 indemnify and hold harmless the Owner against a duly tendered claim, demand, lien, or suit.
33 ECF No. 71-4 § 4 (emphasis added). Based on the conflicting language, there is a material
34 dispute of fact and summary judgment is inappropriate.

35 Therefore, because the reasonable interpretation of the payment bond is that "Claimant"
36 does not include the principal under the bond, the court grants defendants' motion for summary
37 judgment on this portion of plaintiffs' first cause of action, breach of payment bond. However,
38 plaintiffs may proceed under the first and third causes of action regarding whether the Surety

1 breached its contract under the payment bond and incorporated Construction Contract for
2 refusing to “bond off” the liens filed by the subcontractors. Because there is a legitimate dispute
3 as to whether the Surety was required to bond off these lien holders, whether the failure to do so
4 would constitute a contractual breach of the covenant of good faith and fair dealing is also
5 disputed. Therefore, the court denies defendants’ motion for summary judgment as to plaintiffs’
6 sixth cause of action cause of action to the extent it is applicable in this limited context.

7 **F. The court grants defendants’ motion for summary judgment as to plaintiffs’**
8 **eleventh and twelfth causes of action for Fraudulent or Intentional and Negligent**
9 **Misrepresentation.**

10 Under Nevada law, “[i]ntentional misrepresentation is established by three factors: (1) a
11 false representation that is made with either knowledge or belief that it is false or without a
12 sufficient foundation, (2) and intent to induce another’s reliance, and (3) damages that result
13 from this reliance.” *Nelson*, 163 P.3d at 426 (citing *Collins v. Burns*, 741 P.2d 819, 821 (Nev.
14 1987)). “[T]he damage alleged must be proximately caused by reliance on the original
15 misrepresentation or omission.” *Id.* Similarly, to succeed on a claim for negligent
16 misrepresentation, the plaintiff must prove “(1) a false representation made by defendant; (2) the
17 representation was made in the course of the defendant’s business; (3) the representation was for
18 the guidance of others in their business transactions; (4) plaintiff’s justifiable reliance upon the
19 misrepresentation; (5) the reliance resulted in pecuniary loss to plaintiff; and (6) defendant failed
20 to exercise reasonable care or competence in obtaining or communicating the information.”
21 *McDonald v. Palacios*, Case No. 2:09-cv-01470-MMD-PAL, 2016 WL 5346067, at *14 (D.
22 Nev. Sept. 23, 2016).

23 Plaintiffs argue that “Defendants knew, at the time Plaintiffs entered into the Agreement,
24 that it could not fulfill and was not going to attempt to fulfill its own statutory obligations.” ECF
25 No. 71 at 27. However, the record is devoid of any evidence of this assertion. Further, plaintiffs
26 fail to cite to and the court has failed to find any evidence in the record that supports either a
27 claim for intentional or negligent misrepresentation. Accordingly, the court grants defendants’
28 motion for summary judgment on plaintiffs’ eleventh and twelfth causes of action.

///

1 **G. The court grants defendants' motion for summary judgment as to plaintiffs'**
2 **thirteenth cause of action for unjust enrichment.**

3 “An action based on a theory of unjust enrichment is not available when there is an
4 express, written contract, because no agreement can be implied when there is an express
5 agreement.” *LeasePartners Corp. v. Brooks Trust*, 942 P.2d 182, 187 (Nev. 1997). Defendants
6 argue that because there is an express contract, the payment and performance bonds, the claim
7 for unjust enrichment must fail as a matter of law. The court agrees and finds that the bonds are
8 an express contract between Fidelity and plaintiffs; therefore, any claim for unjust enrichment as
9 to Fidelity fails as a matter of law.

10 Plaintiffs argue that there is a dispute as to material fact as to whether Zurich was a party
11 to the bonds, and therefore, the claims for unjust enrichment must survive, even if only against
12 Zurich. Defendants, in contrast, argue that even though Zurich was not a party to the bonds, the
13 claim must fail because the record does not show that (1) plaintiffs conferred a specific benefit
14 on Zurich, (2) Zurich appreciated no benefit, and (3) that Zurich accepted and retained no
15 specific benefit. *See Unionamerica Mortg. And Equity Trust v. McDonald*, 626 P.2d 1272, 1273
16 (Nev. 1981) (quoting *Dass v. Epplen*, 424 P.2d 779, 780 (Colo. 1967) (articulating the elements
17 of unjust enrichment). Defendants argue that because Fidelity, not Zurich issued the bond, it was
18 Fidelity that was conferred the benefit of and appreciated the bond premiums.

19 First, the court is not convinced that Zurich was not a party to the contract. The record
20 provides that on the cover page of the payment bond, under “Surety,” the mailing address for
21 notices and claims is listed as “Zurich North America Claims.” Additionally, attached to the
22 performance bond is a Power of Attorney that lists the same Vice President for both Zurich
23 American Insurance Company and Fidelity and Deposit Company of Maryland. From this
24 record, the court could find that Zurich was also a party to the express contract; and accordingly,
25 any claim for unjust enrichment as to Zurich would also fail as a matter of law. However, even if
26 Zurich was not a party to the contract, plaintiffs have failed to point to any evidence in the record
27 that shows premiums paid to Fidelity under the bonds were conferred on or appreciated by
28

1 Zurich. The court therefore grants defendants' motion for summary judgment on plaintiffs'
2 thirteenth cause of action.


3 **IV. CONCLUSION**

4 IT IS THEREFORE ORDERED that defendants' motion for summary judgment (ECF
5 No. 60) is **GRANTED in part** and **DENIED in part** in accordance with this Order. Defendants'
6 motion as to plaintiffs' first and third causes of action is granted in part and denied in part.
7 Defendants' motion as to plaintiffs' sixth cause of action is denied. Defendants' motion as to
8 plaintiffs' second, fourth, fifth, seventh, eighth, ninth, tenth, eleventh, twelfth, and thirteenth
9 claims is granted.

10 IT IS FURTHER ORDERED that that parties shall submit a proposed joint pretrial order
11 in compliance with Local Rules 16-3 and 16-4 within 45 days of the entry of of this order.

12
13 IT IS SO ORDERED.

14 DATED this 14th day of August, 2019.

15
16 
17 LARRY R. HICKS
18 UNITED STATES DISTRICT JUDGE
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